

ORDINANCE 122687

AN ORDINANCE relating to the City Light Department; authorizing the execution of three agreements to provide for the transmission of power from the Summer Falls and Main Canal Hydroelectric Projects to the City of Seattle.

WHEREAS, the City Light Department ("City Light") and Tacoma Power ("Tacoma") (collectively the "Cities") purchase the output of the Summer Falls and Main Canal Hydroelectric Projects located in Grant County, Washington, both of which are managed by the Grand Coulee Project Hydroelectric Authority ("GCPHA"); and

WHEREAS, the Cities previously purchased transmission from the Avista Corporation ("Avista") in order to transmit the energy from the Summer Falls and Main Canal Hydroelectric Projects to the Cities; and

WHEREAS, the Cities allowed the Avista transmission agreement to expire because the Cities believed a more cost-effective transmission arrangement could be obtained; and

WHEREAS, City Light and Tacoma considered the alternative of directly interconnecting with the Bonneville Power Administration ("BPA") and engaged in litigation at the Federal Energy Regulatory Commission ("FERC") with the GCPHA; and

WHEREAS, as a result of the BPA direct interconnection plan and a bill was introduced to the Seattle City Council to lift a budget proviso relating to the BPA interconnection, resulting in Ordinance 122449; and

WHEREAS, the Cities and GCPHA desire to provide for the cost-effective transmission of the project output for the remaining term of the Power Purchase and Sale Contract between the Cities and GCPHA and to resolve the current litigation at FERC; and

WHEREAS, a long-term means of achieving the parties' mutual interests has been developed through an exchange agreement with the Public Utility District No. 2 of Grant County ("Grant PUD"), a limited transmission agreement with Avista, and a use-of-facilities agreement with Avista; and

WHEREAS, the three agreements identified above are a cost-effective means of providing necessary transmission for the output of the Summer Falls and Main Canal Hydroelectric Projects, resolving the on-going litigation, and mitigating the construction and material cost risks associated with the BPA direct interconnection; NOW, THEREFORE,



BE IT ORDAINED BY THE CITY OF SEATTLE AS FOLLOWS:

Section 1. The Superintendent of the City Light, or his designee, is hereby authorized to execute for and on behalf of the City of Seattle the following three agreements:

- (a) a power exchange agreement with Grant PUD, substantially in the form attached hereto as Attachment A,
- (b) a long-term firm point-to-point transmission service agreement with Avista, substantially in the form attached hereto as Attachment B, and
- (c) a long-term firm use-of-facilities agreement with Avista, substantially in the form attached hereto as Attachment C.

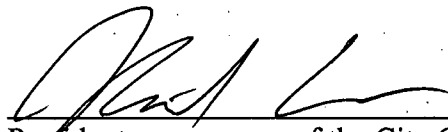
These agreements collectively provide for transmission services for the remaining term of the underlying power purchase agreements between the Cities and GCPHA. Accordingly, the Superintendent of the City Light, or his designee, is also authorized to execute any future amendments or agreements that are necessary to comply with any regulatory changes.

Section 2. Any act consistent with the authority of this ordinance that is taken after its passage but prior to its effective date is hereby ratified and confirmed.



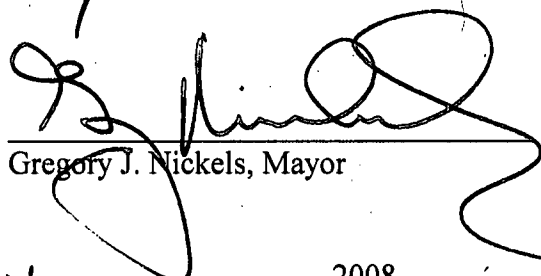
Section 3. This ordinance shall take effect and be in force thirty (30) days from and after its approval by the Mayor, but if not approved and returned by the Mayor within ten (10) days after presentation, it shall take effect as provided by Municipal Code Section 1.04.020.

Passed by the City Council the 12th day of MAY, 2008, and signed by me in open session in authentication of its passage this 12th day of MAY, 2008.



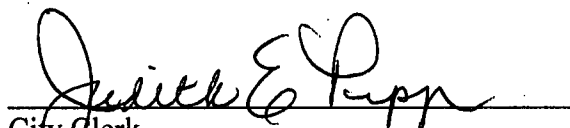
President _____ of the City Council

Approved by me this 20th day of May, 2008.



Gregory J. Nickels, Mayor

Filed by me this 20th day of May, 2008.



City Clerk

(Seal)

Attachment A: Grant County Power Exchange Agreement

Exhibit to Attachment A:

Exhibit 1: Example Calculations Referenced in Section 4

Attachment B: Avista Long-Term Point-to-Point Transmission Service Agreement

Exhibits to Attachment B:

Exhibit 1: Specifications & Charges for Long-Term Point-to-Point Transmission Service

Exhibit 2: Specifications & Charges for Ancillary Services

Attachment C: Avista Long-Term Firm Use-of-Facilities Agreement

Exhibits to Attachment C:

Exhibit 1: Specifications and Charges for Long-Term Firm Use-of-Facilities

Exhibit 2: Specifications and Charges for Ancillary Services



Attachment A

POWER EXCHANGE AGREEMENT

Between

PUBLIC UTILITY DISTRICT NO. 2 OF GRANT COUNTY, WASHINGTON,

And

**THE CITY OF SEATTLE, by and through its LIGHT DEPARTMENT dba SEATTLE
CITY LIGHT**



This Power Exchange Agreement ("Exchange Agreement"), executed as of Januray __, 2008, is made by and between Public Utility District No. 2 of Grant County, Washington ("Grant PUD") and the City of Seattle, Washington, by and through its Light Department, dba Seattle City Light ("Seattle"). Grant PUD and Seattle are sometimes referenced in this Agreement individually as "Party" and collectively as "Parties."

RECITALS

A. Grant PUD and Seattle each own and operate facilities for the production, transmission and distribution of electricity.

B. The transmission systems of Grant PUD and Seattle are connected indirectly through the intervening systems of Bonneville Power Administration ("BPA") and Avista Corporation ("Avista").

C. Seattle has Power Purchase and Sale Contracts with the South, East and Quincy Columbia Basin Irrigation Districts (collectively, the "Irrigation Districts").

D. The Main Canal Output could be utilized by Grant PUD for purposes of serving its Grant County electrical loads at Coulee City and Wilson Creek in the vicinity of the Main Canal project. Power from Summer Falls and Main Canal can be used to meet loads in Grant County that are connected via a 115 kV transmission line to the Stratford Switchyard.

E. Seattle desires to deliver and Grant PUD is willing to accept delivery of Main Canal Output and Summer Falls Output in exchange for corresponding amounts of Grant PUD System Power in accordance with the terms and conditions of this Agreement.

F. Grant PUD intends to execute a materially identical exchange agreement with the City of Tacoma, Department of Public Utilities, Light Division, dba "Tacoma Power."

NOW, THEREFORE, in consideration of the mutual covenants set forth below, Grant PUD and Seattle agree as follows:

1. DEFINITIONS

As used in this Exchange Agreement, terms with initial capitalization, whether singular or plural, shall have the meanings set forth in this Section 1. Certain other terms are defined where they appear elsewhere in this Exchange Agreement.

"Agreement Limiting Liability Among Western Interconnected Systems" means that certain agreement among Seattle, Grant PUD, Avista, BPA, Tacoma and other signatories, originally dated as of August 1973, as amended from time to time.

"Avista Losses" means losses assessed to Seattle by Avista related to use of Avista's transmission line between the Main Canal hydroelectric project and Avista's Stratford Switching Station.



"Balancing Authority" sometimes called a "balancing authority area," means an electrical system bounded by interconnection metering and telemetry, in which the system operator controls generation to balance its interchange schedules with other Balancing Authority Areas and contributes to frequency regulation in accordance with NERC and WECC standards and requirements.

"Effective Date" has the meaning specified in Section 2.1.

"Execution Date" means the date shown above in the opening paragraph of this Exchange Agreement.

"Grant Exchange Point" means the Mid-Columbia ("MidC") point of delivery, or other point of delivery designated by mutual agreement of the Parties, at which Grant PUD makes Grant Exchange Power available to Seattle. The delivery point MidC is used in regional scheduling practice for deliveries from Grant PUD. The Priest Rapids Dam and Switchyard, the Wanapum Dam and Switchyard, and the Columbia Substation are facilities included in the MidC delivery point.

"Grant Exchange Power" means Grant System Power, made available by Grant PUD to Seattle at the Grant Exchange Point, at times and in amounts as set forth in Section 4.1 of this Exchange Agreement.

"Grant System Power" means electrical power which Grant has available from its various resources, subject to interruption or curtailment due to Uncontrollable Force.

"Grant's Coulee City/Wilson Creek Load" means the total hourly load scheduled by Grant PUD to its customers in its Coulee City and Wilson Creek substations.

"Main Canal Headworks" means the location where the Main Canal Headworks Hydroelectric Project interconnects to the Avista 115 kV transmission line.

"Main Canal Output" means Seattle's contractual share of the metered energy generated at the Main Canal hydroelectric project, FERC Project No. 2849, which Seattle is entitled to receive from the Irrigation Districts pursuant to the Power Purchase and Sale Contract between Seattle and the Irrigation Districts, which contract is administered for the Irrigation Districts by the Grand Coulee Project Hydroelectric Authority ("GCPHA").

"Main Canal Output Expiration Date" means January 1, 2027, the expiration date of the Power Purchase and Sale Contract between Seattle and the Irrigation Districts regarding Main Canal Output.

"NERC" means the North American Electric Reliability Corporation or its successor organization.

"Power" means electrical capacity and energy.



"Power Purchase and Sale Contract" means, depending on the context, either the agreement between Seattle and the Irrigation Districts regarding Main Canal Output or the agreement regarding Summer Falls Output.

"Prudent Utility Practice" means any of the procedures, methods, and acts engaged in or approved by a significant portion of the electric utility industry, which, in the exercise of reasonable judgment in light of facts known at the time, could be expected to accomplish the desired result at the lowest reasonable cost consistent with good business practices, reliability, safety, and reasonable expectations. Prudent Utility Practice is not required to be the optimum practice, method, or act to the exclusion of all others, but rather to be a spectrum of practices, methods, or acts which could reasonably be expected to accomplish the desired result at the lowest reasonable costs consistent with reliability and safety. Prudent Utility Practice includes due regard for manufacturers' warranties and the requirements of governmental agencies of competent jurisdiction.

"Pseudo-Tie" means a telemetered reading or value that is updated in real time and used as a "virtual" tie line flow in the AGC/ACE equation but for which no physical tie or energy metering actually exists. The integrated value is used as a metered MWh value for interchange accounting purposes.

"Summer Falls Output" means Seattle's contractual share of the metered energy generated at the Summer Falls hydroelectric project, FERC Project No. 3295, which Seattle is entitled to receive from the Irrigation Districts pursuant to the Power Purchase and Sale Contract between Seattle and the Irrigation Districts, which contract is administered for the Irrigation Districts by GCPHA.

"Summer Falls Output Expiration Date" means January 1, 2025, the expiration date of the Power Purchase and Sale Contract between Seattle and the Irrigation Districts regarding Summer Falls Output.

"Summer Falls-Stratford Line" means the 115 kV transmission line, that is owned by the Irrigation Districts and operated by GCPHA, between the Summer Falls hydroelectric project and Avista's Stratford Switching Station.

"Uncontrollable Force" means any cause or causes that by the exercise of due diligence the Party unable to perform could not reasonably have been expected to avoid and that by the exercise of due diligence that Party has been unable to overcome, including, but not limited to, the following: emergency or electrical disturbance on or transmitted through a Party's electric system or any electric system with which a Party is directly or indirectly interconnected; failure or threat of failure of equipment or facilities; flood, earthquake, volcanic activity, wind, storm, drought, fire, pestilence, lightning and other natural catastrophes; epidemic, war, riot, civil disturbance or disobedience; sabotage, vandalism, strike, lockout, labor disturbance or labor or material shortage; restraint by court order or by any governmental authority other than a Party.

"WECC" means the Western Electricity Coordinating Council or successor organization.



2. EFFECTIVE DATE AND TERM

2.1 Effective Date. This Exchange Agreement shall become effective ("Effective Date") on the later of: i.) the Execution Date; ii.) the date on which it shall have been approved by the governing board, council or commission of each of the Parties; iii.) the effective date of Seattle's agreement(s) with Avista executed contemporaneously with this Exchange Agreement, or iv.) the effective date of Grant's amended transmission agreement with Avista executed contemporaneously with this Exchange Agreement.

2.2 Term. The Term of this Exchange Agreement shall commence at 0000 hours on the Effective Date and terminate at 2400 hours on the Main Canal Output Expiration Date for the Main Canal Output and on the Summer Falls Output Expiration Date for the Summer Falls Output.

2.3 Survival. All payment and indemnification obligations incurred and continuing under this Exchange Agreement shall survive the Term until satisfied in full.

2.4 Extension. If the power purchase and sale agreements between Seattle and the Irrigation Districts regarding Main Canal Output and Summer Falls Output are renewed or extended, then Seattle shall have the right to extend this Exchange Agreement on the same terms and conditions as contained herein for a term coincidental with such renewal or extension period agreed to between Seattle and the Irrigation Districts; provided however that the compensation to be paid to Grant shall be determined by, and subject to, mutual agreement of the Parties.

3. DELIVERY AND RECEIPT OF SEATTLE'S POWER

3.1 Main Canal Output. Seattle shall make available and cause to be delivered all of the Main Canal Output to Grant PUD in accordance with the following provisions. Seattle shall cause to be delivered to Grant PUD at the Main Canal Headworks such portion of Main Canal Output as Grant PUD determines, from time to time, is required to serve up to 50% of Grant's Coulee City/Wilson Creek Load. Seattle shall cause to be delivered the remaining balance of the Main Canal Output to Grant PUD at the Stratford Switching Station, net of any Avista Losses.

3.2 Summer Falls Output. Seattle shall make available and cause to be delivered all of the Summer Falls Output to Grant PUD at the Stratford Switching Station, net of the losses, currently 0.68%, incurred over the Summer Falls-Stratford Line as a meter location correction factor. If Grant PUD constructs and energizes a bypass transmission line ("Bypass") that directly connects the Grant PUD system to the primary line of the Summer Falls hydroelectric project pursuant to a separate agreement among Grant PUD, Seattle and GCPHA, the point of delivery shall then become the point where the transmission system of Grant PUD connects with the Summer Falls-Stratford line.

3.3 Contingency Reserve Requirements. Seattle is responsible for all contingency reserve requirements associated with Main Canal Output and Summer Falls Output, as a Balancing Authority under applicable NERC standards.



3.4 Seattle's Delivery of Power to Grant PUD

3.4.1 Delivery and Tagging. Seattle shall dynamically schedule and deliver to Grant PUD all Main Canal Output and Summer Falls Output as determined in accordance with Sections 3.1 through 3.3. This exchange will be represented as a Pseudo-Tie with a Point-of-Receipt ("POR") in Seattle's Balancing Authority Area and a Point-of-Delivery ("POD") in Grant PUD's Balancing Authority Area. Each party is independently responsible for all tagging requirements associated with the Main Canal Output and Summer Falls Output. Summer Falls and Main Canal will remain in Seattle's Balancing Authority Area.

3.4.2 Transmission of Main Canal Output and Summer Falls Output. Seattle intends to contemporaneously execute and maintain such transmission agreements as are necessary to permit the transmission of Main Canal Output and Summer Output as provided in this Section 3.

3.5 Grant PUD's Receipt of Main Canal Output and Summer Falls Output. Grant PUD shall accept delivery of all Main Canal Output and Summer Falls Output delivered to Grant PUD in accordance with Section 3. Nothing in this Agreement shall be construed to give Grant PUD any right or interest in either Power Purchase and Sale Contract between Seattle and the Irrigation Districts.

4. DELIVERY AND RECEIPT OF GRANT EXCHANGE POWER

4.1 Determination of and Delivery of Grant Exchange Power to Seattle. During each hour in which Seattle delivers Main Canal Output and Summer Falls Output to Grant PUD pursuant to Section 3 of this Agreement, Grant PUD will deliver Grant Exchange Power to Seattle at the Grant Exchange Point in accordance with the following provisions. The amount of Grant Exchange Power for each such corresponding hour will be determined in accordance with the following formula:

A = Summer Falls Output multiplied by .9932 (.9932 = 1.0 minus Losses on the Summer Falls-Stratford Line)

B = Main Canal Output minus Avista Losses

C = The greater of 1) zero or 2) B minus one half of the amount of Grant's Coulee City/Wilson Creek Load

D = (A plus C) multiplied by .984 (.984 = 1.0 minus Losses on the Stratford-Larson Line)

E = The lesser of 1) 50% of Grant loads at Wilson Creek and Coulee City or 2) B

Grant Exchange Power = D + E

The foregoing calculation incorporates the following loss factors which shall only be subject to change in the future by mutual agreement as a result of any system changes:



Losses on the Summer Falls-Stratford Line .68%

Losses on the Stratford-Larson Line 1.60%

Examples of the application of this formula are listed in Exhibit 1.

4.2 Contingency Reserve Requirements. Grant PUD is responsible for all the contingency reserve requirements associated with the necessary generation used to deliver Grant Exchange Power to Seattle, as a Balancing Authority under applicable NERC standards.

4.3 Grant PUD's Delivery of Grant Exchange Power to Seattle. Grant PUD shall dynamically deliver all Grant Exchange Power to the Grant Exchange Point at MidC, as determined in accordance with Section 4.1. This exchange will be represented as a Pseudo-Tie with a POR in Grant PUD's Balancing Authority Area and a POD in Seattle's Balancing Authority Area.

4.4 Seattle's Receipt of Grant Exchange Power.

4.4.1 BPA Transmission Requirements. Seattle shall be responsible for taking all actions necessary under its BPA Point-to-Point Transmission Service Agreement(s) and applicable provisions of BPA's Open Access Transmission Tariff as may be necessary to allow it to receive Grant Exchange Power at the Grant Exchange Point(s).

4.4.2 Receipt of Power. Seattle shall accept delivery of all Grant Exchange Power delivered to it by Grant PUD at the Grant Exchange Point(s) in accordance with Section 4.1.

5. SEATTLE PAYMENT

For the exchange services specified in this Agreement, Seattle shall pay Grant PUD a one-time amount of \$1 million, payable by electronic funds transfer within 45 days of the Effective Date. Seattle shall not be entitled to any monetary compensation for its performance of this Exchange Agreement.

6. OTHER PERFORMANCE OBLIGATIONS OF THE PARTIES

6.1 Access To Information. The Parties agree to exchange information related to telemetry sent and received with respect to the delivery of energy (i) at the request of the other Party for purposes of after-the-fact interchange accounting, or (ii) on demand for any other purpose.



6.2 Cooperation In Dealing With Third Parties. Each Party shall use commercially reasonable efforts to assist the other Party in dealing with Avista, BPA, the Irrigation Districts, GCPHA and others regarding the implementation of this Exchange Agreement.

6.3 NERC And WECC Requirements. Nothing in this Exchange Agreement is intended to change, supersede, or alter either Party's obligations to abide by NERC standards and WECC criteria.

6.4 Data to be Provided to Avista by Grant PUD. Throughout the term of this Exchange Agreement, Grant PUD shall provide all information reasonably required by Avista relating to the scheduling and delivery of Main Canal Output and Summer Falls Output and billing for the relevant transmission services provided to Seattle by Avista.

7. INDEMNIFICATION

The Parties' indemnification obligations under this Exchange Agreement shall be those specified in the Agreement Limiting Liability Among Western Interconnected Systems.

8. MUTUAL REPRESENTATIONS AND WARRANTIES

Each Party represents and warrants to the other Party that it has full authority and power to enter into this Exchange Agreement, that the Party's representative who signs below is duly authorized by it to enter into this Exchange Agreement, subject to the approval requirements of its board, council or commission, and that nothing herein violates any law, regulation, judicial or regulatory order, or agreement applicable to such warranting Party.

9. ASSIGNMENT

Neither Party may assign any of its rights under this Exchange Agreement or delegate any of its obligations hereunder without the prior written consent of the other Party, which consent shall not be unreasonably withheld, conditioned or delayed.

10. DEFAULT AND REMEDIES

10.1 Default. In the event either Party ("Defaulting Party") materially breaches any of its obligations under this Exchange Agreement that remains uncured upon expiration of any specified cure period, the other Party ("Non-Defaulting Party") may, by written notice to the Defaulting Party, (i) terminate this Exchange Agreement, and (ii) exercise such other rights and remedies to which it may be entitled at law or in equity. No remedy will be deemed exclusive of any other right or remedy, and each remedy shall be cumulative and in addition to any other right or remedy provided for hereunder or otherwise legally available.

10.2 Cure Period. A Defaulting Party shall have a cure period of 30 calendar days, commencing on the day on which the Non-Defaulting Party notifies the Defaulting Party thereof in writing. Such notice shall be effective upon receipt. Absent cure to its



satisfaction within the specified period, the non-defaulting Party may then pursue its remedies under this Section 10.

10.3 Choice of Law. This Exchange Agreement and the rights and obligations of the Parties hereunder shall be construed and enforced in accordance with the laws of the State of Washington, without regard to that state's choice-of-law principles.

10.4 Jurisdiction and Venue. Each Party hereby irrevocably consents to the jurisdiction and venue of the federal, state and local courts located in Spokane County, Washington, in connection with any action arising out of or in connection with this Exchange Agreement, except with respect to either Party's right to initiate arbitration pursuant to Section 10.5. The substantially prevailing Party in any judicial proceeding relating to a dispute arising under, or relating to, this Exchange Agreement shall be entitled to recover all of its costs, including reasonable attorney fees.

10.5 Special Provision Relating to Arbitration. Disputes arising under the Agreement Limiting Liability Among Western Interconnected Systems are subject to arbitration in accordance with Section 2 thereof. Any such arbitration that relates to the subject matter of this Exchange Agreement shall be conducted so as to give maximum effect to the provisions of Section 10.4 of this Exchange Agreement. Except as otherwise provided in the Agreement Limiting Liability Among Western Interconnected Systems, the substantially prevailing Party in any arbitration relating to a dispute arising under, or relating to, this Exchange Agreement shall be entitled to recover all of its costs, including reasonable attorney fees.

10.6 Duty to Mitigate. Each Party has a duty to mitigate damages and shall use commercially reasonable efforts to minimize any damages it may incur as a result of the other Party's Default under this Exchange Agreement.

10.7 Limitation of Liability. Regarding any default of this Exchange Agreement, the Defaulting Party's liability shall be limited to direct actual damages only, the direct actual damages shall be the exclusive remedy, and all other remedies or damages at law or in equity are waived. Neither Party shall have any liability for consequential, incidental, punitive, exemplary, or indirect damages, lost profits, lost or damaged product or data, or other business interruption damages, whether by statute, in tort or contract, under any indemnity provision, or otherwise, even if the Party subject to liability has been advised in advance of the possibility of those damages. The limitations on remedies imposed by this provision are without regard to the cause or causes of the applicable default, including the negligence of a Party, whether that negligence is sole or joint or active or passive.

11. NOTICES

Any notice required by a Party under this Exchange Agreement shall be in writing and shall be deemed delivered (1) when sent via U.S. Mail, postage prepaid, certified mail, return receipt requested; (2) when sent via overnight delivery service requiring a signature from the



Party receiving the notice; or (3) when hand delivered. In the event notice is required under this Exchange Agreement, it shall be addressed as follows:

If to Tacoma: Power Manager
Tacoma Power - Power Management
3628 South 35th Street
Tacoma, Washington 98409

If to Seattle: Power Management Executive
Seattle City Light - Power Management
P.O. Box 34023
Seattle, Washington 98124-4023

If to Grant PUD: Director of Power Management
Public Utility District #2 of Grant County, WA
PO Box 878
Ephrata, WA 98823

with a copy to:
Manager of Transmission Services
Public Utility District #2 of Grant County, WA
PO Box 878
Ephrata, WA 98823

Either Party may change the name or addresses of its designee by giving written notice to the other Party pursuant to this Section 11.

12. MISCELLANEOUS

12.1 Uniform Interpretation and Implementation of Parallel Contracts. The Parties intend and agree that all provisions of this Exchange Agreement and all provisions of the materially identical exchange agreement between Grant PUD and Tacoma Power shall be interpreted, construed and enforced in a uniform manner such that Seattle and Tacoma receive identical exchange services from Grant PUD.

12.2 Entirety. This Exchange Agreement constitutes the entire agreement between the Parties regarding the service that is the subject matter of this Exchange Agreement.

12.3 Binding Effect. This Exchange Agreement shall bind, inure to the benefit of, and be enforceable by the Parties and their respective successors and permitted assigns.

12.4 Amendments. No amendment, modification or change to this Exchange Agreement shall be enforceable unless reduced to writing and hereafter executed by both Parties.



12.5 Non-Waiver. No waiver of any breach in the performance of any provision of this Exchange Agreement shall be construed as a waiver of any other breach.

12.6 Severability. In the event that any provision of this Exchange Agreement shall be deemed unlawful by a court of competent jurisdiction, so long as the purpose and effect of this Exchange Agreement is not thereby rendered meaningless, such provision shall be severed from the remainder of this Exchange Agreement, and the remainder of this Exchange Agreement shall continue in effect, fully binding. The Parties agree to meet to determine their need for any replacement language and to negotiate a suitable replacement for the severed provision as soon thereafter as reasonably practicable.

12.7 Headings. Headings used in this Exchange Agreement are for convenience only and shall not affect the meaning or interpretation of its provisions.

12.8 Preparation of Agreement. This Exchange Agreement shall be considered for all purposes as having been prepared through the joint efforts of the Parties and shall not be construed against one Party or the other as a result of the manner in which this Exchange Agreement was negotiated, prepared, drafted, or executed.

12.9 No Joint Venture. Nothing contained herein shall be construed as creating a partnership or joint venture between the Parties. Neither Party shall be responsible in any way for the debts or obligations of the other Party; it being the express intent of the Parties that their relationship is that of independent contractors to a contract.

12.10 No Dedication of Facilities. No undertaking by Seattle or Grant PUD under any provision of this Exchange Agreement shall constitute a dedication of either Party's generation or transmission system (or any portion thereof) to the public or to the other Party.

12.11 Standard of Care. In implementing all actions, procedures and practices the Parties shall follow Prudent Utility Practices.



12.12 No Transfer of Environmental or Renewable Attributes. Neither Party intends by this Exchange Agreement to transfer to, or receive from, the other Party any present or future renewable energy credit, or any other similar environmental or renewable attribute associated with the Main Canal hydroelectric project, the Summer Falls hydroelectric project, or any other generating resource.

IN WITNESS WHEREOF, the Parties, by their respective duly authorized representatives, have executed this Agreement on the date shown in the first paragraph thereof. This Agreement shall not bind any Party until executed by both Parties.

**PUBLIC UTILITY DISTRICT NO. 2 OF
GRANT COUNTY, WASHINGTON**

ATTEST:

By: _____
Secretary

By: _____
Tim Culbertson
Title: General Manager

**THE CITY OF SEATTLE, by and through
its CITY LIGHT DEPARTMENT,
dba SEATTLE CITY LIGHT**

By: _____
Jorge Carrasco
Title: Superintendent



Exhibit 1

Example Calculations Referenced in Section 4

The following represent two numerical examples of the calculations as they would apply on a dynamic basis:

Example 1

Metered Generation at Summer Falls: 92 MW

Metered Generation at Main Canal Headworks: 20 MW

Seattle Schedule to Avista for Avista Losses: 1 MW

Schedule from Grant PUD to Avista for Load at Coulee City and Wilson Creek: 12 MW

Summer Falls Output = $92 \text{ MW} / 2 = 46 \text{ MW}$

A = $46 \text{ MW} \times .9932 = 45.69 \text{ MW}$

Main Canal Output = $20 \text{ MW} / 2 = 10 \text{ MW}$

B = $10 \text{ MW} - 1 = 9 \text{ MW}$

C = greater of $(9 \text{ MW} - 12 \text{ MW} / 2 = 9 \text{ MW} - 6 \text{ MW} = 3 \text{ MW})$ or $(0 \text{ MW}) = 3 \text{ MW}$

Power Delivered to Grant at Stratford under Section 3 = $45.69 \text{ MW} + 3 \text{ MW} = 48.69 \text{ MW}$

D = $48.69 \text{ MW} \times .984 = 47.91 \text{ MW}$

E = lesser of $(12 \text{ MW} / 2 = 6 \text{ MW})$ or $(9 \text{ MW}) = 6 \text{ MW}$

Grant Exchange Power = $47.91 \text{ MW} + 6 \text{ MW} = 53.91 \text{ MW}$

Example 2

Metered Generation at Summer Falls: 92 MW

Metered Generation at Main Canal: 10 MW

Seattle Schedule to Avista for Avista Losses: 1 MW

Schedule from Grant PUD to Avista for Load at Coulee City and Wilson Creek: 12 MW

Summer Falls Output = $92 \text{ MW} / 2 = 46 \text{ MW}$

A = $46 \text{ MW} \times .9932 = 45.69 \text{ MW}$

Main Canal Output = $10 \text{ MW} / 2 = 5 \text{ MW}$

B = $5 \text{ MW} - 1 \text{ MW} = 4 \text{ MW}$

C = greater of $(4 \text{ MW} - 12 \text{ MW} / 2 = 4 \text{ MW} - 6 \text{ MW} = -2)$ or $(0 \text{ MW}) = 0 \text{ MW}$

Power Delivered to Grant at Stratford under Section 3 = $45.69 \text{ MW} + 0 \text{ MW} = 45.69 \text{ MW}$

D = $45.69 \text{ MW} \times .984 = 44.96 \text{ MW}$

E = lesser of $(12 \text{ MW} / 2 = 6 \text{ MW})$ or $(4 \text{ MW}) = 4 \text{ MW}$

Grant Exchange Power = $44.96 \text{ MW} + 4 \text{ MW} = 48.96 \text{ MW}$



LONG-TERM FIRM POINT-TO-POINT TRANSMISSION SERVICE AGREEMENT

under

**AVISTA CORPORATION'S
OPEN ACCESS TRANSMISSION TARIFF
FERC ELECTRIC TARIFF, VOLUME NO. 8**

This LONG-TERM FIRM POINT-TO-POINT TRANSMISSION SERVICE AGREEMENT made and entered into this _____ day of _____, 2008, by and between AVISTA CORPORATION ("Avista") and the CITY OF SEATTLE ACTING BY AND THROUGH ITS LIGHT DEPARTMENT ("Seattle City Light"), which hereinafter may be referred to individually as "Party" or collectively as "Parties."

WITNESSETH

WHEREAS, Avista provides Firm Point-to-Point Transmission Service over its Transmission System under Avista's Open Access Transmission Tariff; and

WHEREAS, Seattle City Light historically obtained transfer service from Avista for the output of the Main Canal Generating Plant pursuant to Avista's Rate Schedule FERC No. 164 and, on an interim basis, pursuant to a Long-Term Firm Point-to-Point Transmission Service Agreement under Avista's Tariff (Avista Contract No. AV-TR06-0208); and

WHEREAS, the Main Canal Generating Plant, being an irrigation related project, is not typically able to generate power during the months of November through February; and

WHEREAS, Seattle City Light has considered alternative methods to transfer the output of the Main Canal Generating Plant, including the construction of new transmission facilities intended to bypass Avista's Transmission System; and

WHEREAS, Seattle City Light desires to continue to obtain Long-Term Firm Point-to-Point Transmission Service under Avista's Open Access Transmission Tariff for a portion of the output of the Main Canal Generating Plant; and

NOW THEREFORE, the Parties agree as follows:

Section 1 - Definitions

Unless otherwise defined herein, all capitalized terms shall have their respective meanings as set forth in Avista's Open Access Transmission Tariff, FERC Electric Tariff, Volume No. 8 ("Tariff"). Seattle City Light shall be the Transmission Customer as such term is used in the Tariff and Avista shall be the Transmission Provider as such term is used in the Tariff.

Section 2 - Standard Provisions

- 2.1 **Terms and Conditions:** The terms and conditions under which Long-Term Firm Transmission Service is offered and accepted are pursuant to this Service Agreement and to the Tariff. The Tariff is hereby incorporated by this reference and made a part of this Service Agreement. Avista may change the terms and conditions of the Tariff upon, and only upon, approval by the Commission pursuant to a filing by Avista.



- 2.2 Completed Application: Avista has determined that Seattle City Light is deemed to have a Completed Application for Firm Point-to-Point Transmission Service under the Tariff.
- 2.3 Application Deposit: Pursuant to Avista's posted business practices with respect to the rollover or continuation of historical transfer service, Avista has waived Seattle City Light's requirement to provide an Application deposit in accordance with the provisions of Section 17.3 of the Tariff.
- 2.4 System Impact and Facilities Studies: Study Agreements for a System Impact Study and/or a Facilities Study are not required to continue to transfer the output of the Main Canal Generating Plant over Avista's Transmission System.

Section 3 - Term and Regulatory Filing

- 3.1 Effective Date and Filing: This Service Agreement shall be effective on the Service Commencement Date of June 1, 2008 or such other date as may be designated by the Commission when accepted for filing ("Effective Date"). Avista shall file this Service Agreement with the Commission as a Service Agreement under the Tariff.
- 3.2 Termination of Agreement: This Service Agreement shall remain in effect through October 31, 2026.

Section 4 - Long-Term Firm Point-to-Point Transmission Service

Commencing on the Effective Date Avista shall provide, and Seattle City Light shall take and pay for, Long-Term Firm Point-to-Point Transmission Service pursuant to the Tariff. Exhibit 1 to this Service Agreement lists the Points of Receipt and Points of Delivery, the amounts of Reserved Capacity at the Points of Receipt and Points of Delivery and applicable charges for Long-Term Firm Point-to-Point Transmission Service.

Section 5 - Other Services

Commencing on the Effective Date Avista shall provide, and Seattle City Light shall take and pay for, the following Ancillary Services:

- 5.1 Scheduling, System Control and Dispatch Service
- 5.2 Reactive Supply and Voltage Control from Generation or Other Sources Service
- 5.3 Regulation and Frequency Response Service
- 5.4 Energy Imbalance Service
- 5.5 Operating Reserve - Spinning Reserve Service
- 5.6 Operating Reserve - Supplemental Reserve Service

The amounts of such services, specific terms and conditions associated with such services and the charges for such services are listed in Exhibit 2 to this Service Agreement.

Section 6 - Construction of Facilities

No construction of Direct Assignment Facilities or Network Upgrades are required for Firm Transmission Service to be provided pursuant to this Service Agreement.



Section 7 - Billing and Payment

Billing and payment for all services provided under this Service Agreement shall be pursuant to Section 7 of the Tariff. Bills sent to Seattle City Light shall be sent to:

Attention: Power Accounts Coordinator
Seattle City Light
700 Fifth Avenue, Suite 3200
P. O. Box 34023
Seattle, Washington 98124-4023

All payments to Avista shall be submitted via electronic funds transfer to the account specified on each invoice.

Section 8 - Miscellaneous Provisions

- 8.1 **Waivers**: Any waiver at any time by either Party hereto of its rights with respect to the other Party or with respect to any matter arising in connection with this Service Agreement shall not be considered a waiver with respect to any other default of the same or any other matter.
- 8.2 **Effect of Section Headings**: Section headings appearing in this Service Agreement are inserted for convenience of reference only and shall not be construed to be interpretations of the text of this Service Agreement.
- 8.3 **Notices**: Any written notice or request made to Avista under this Service Agreement shall be directed to:

Attention: Manager, Transmission Services
Avista Corporation
1411 East Mission Avenue
Spokane, Washington 99202-1902
or
P. O. Box 3727
Spokane, Washington 99220-3727

Any written notice or request made to Seattle City Light under this Service Agreement shall be directed to:

Attention: Power Manager
Seattle City Light
700 Fifth Avenue, Suite 3200
P. O. Box 34023
Seattle, Washington 98124-4023



IN WITNESS WHEREOF, the Parties hereto have caused this Service Agreement to be executed in their respective names by their duly authorized representatives as of the date first noted above.

AVISTA CORPORATION

By: _____

Jeff Schlect

Manager, Transmission Services

Signed this _____ day of February, 2008.

CITY OF SEATTLE

By: _____

Jorge Carrasco

Superintendent

Signed this _____ day of _____, 2008.



EXHIBIT 1
SPECIFICATIONS AND CHARGES FOR
LONG-TERM FIRM POINT-TO-POINT TRANSMISSION SERVICE

Point of Receipt

Location: The point on Avista's Chelan-Stratford 115 kV Transmission Line where the 115 kV facilities of the Main Canal Generating Plant and Avista are connected.

Reserved Capacity: As defined for Reserved Capacity below.

Delivering Party: Seattle City Light

Point of Delivery

Location: The point in Avista's Stratford 115 kV Switching Station where the 115 kV facilities of Avista and the Public Utility District No. 2 of Grant County are connected.

Reserved Capacity: As defined for Reserved Capacity below.

Receiving Party: Seattle City Light (PUD No. 2 of Grant County Balancing Authority Area)

Reserved Capacity

For the months March through October of each year the Reserved Capacity shall be the greater of: (i) the Monthly Net Project Output and (ii) the maximum Monthly Net Project Output recorded during the prior thirty-six (36) months.

The Monthly Net Project Output for each month shall be the maximum Hourly Net Project Output calculated for each hour of such month where:

Hourly Net Project Output = (Hourly Project Output) – (Hourly Grant County Transfer Loads)

Hourly Project Output shall equal one-half of the total electric energy generated from the Main Canal Generating Plant and delivered to the Avista Transmission System at the Point of Receipt.

Hourly Grant County Transfer Loads shall be one-half of the energy transferred by Avista for the Public Utility District No. 2 of Grant County ("Grant PUD") from the Main Canal Generating Plant to Grant PUD's loads at the Wilson Creek and Coulee City points of delivery pursuant to the Power Transfer Agreement between Grant PUD and Avista, Avista Rate Schedule FERC No. 104, or its successor.

For the months November through February of each year the Reserved Capacity shall be zero (0 kW).



Monthly Transmission Charge

(Pursuant to Schedule 7 of the Tariff)

One twelfth of the then-current yearly transmission demand charge multiplied by the Reserved Capacity. As of the Effective Date, the yearly transmission demand charge is \$16.79/kW.

Losses

(Pursuant to Section 15.7 of the Tariff)

Loss Factor is three percent (3%) applied to actual energy transmitted, to be delivered to Avista at the Point of Delivery, or such other point as may be mutually agreed upon by the Parties from time to time. Avista shall specify and Seattle City Light shall return the applicable on-peak and off-peak loss return obligation amounts, in whole megawatt increments, for delivery seven (7) days following the transmission of such energy.

Seattle City Light and Avista may from time to time agree to provide for financial settlement of losses. Any change between physical return and financial settlement of losses shall have a term of at least one year and shall be preceded by at least six-months' notice, unless otherwise mutually agreed upon by the Parties. As of the Effective Date, the Parties have agreed to settle losses financially.

Financial settlement of Seattle City Light's loss return obligation, calculated on a kilowatt basis for each hour, shall be at 100% of the Hourly Pricing Proxy plus 0.5 mills/kilowatt-hour.

Hourly Pricing Proxy: For purposes of financially settling losses, the "Hourly Pricing Proxy" is defined as the Dow Jones Mid-Columbia Daily Firm Index, On-Peak (hours ending 0700 through 2200 Pacific Prevailing Time Monday through Saturday inclusive, excluding NERC holidays) and Off-Peak (all other hours). If data for calculating any Hourly Pricing Proxy is not available from Dow Jones, data from the same time of day from the previous day shall be used. Should the Dow Jones Mid-Columbia Daily Firm Index become no longer generally available, the Parties shall agree upon a replacement definition for the Hourly Pricing Proxy and shall specify such replacement definition in this Service Agreement.

System Impact and/or Facilities Study Charges

(Pursuant to Section 19 of the Tariff)

None required

Direct Assignment Facilities Charges

None required

Designation of Party Subject to Reciprocal Service Obligation

(Pursuant to Section 6 of the Tariff)

Seattle City Light



EXHIBIT 2
SPECIFICATIONS AND CHARGES FOR ANCILLARY SERVICES

Scheduling, System Control and Dispatch Service

Pursuant to Schedule 1 of the Tariff.

Reactive Supply and Voltage Control from Generation or Other Sources Service

Pursuant to Schedule 2 of the Tariff.

Regulation and Frequency Response Service

(Pursuant to Schedule 3 of the Tariff)

The Main Canal Generating Plant does not reside in Avista's Balancing Area. Accordingly, this service is not applicable.

Energy Imbalance Service

(Pursuant to Schedule 4 of the Tariff)

The Main Canal Generating Plant does not reside in Avista's Balancing Area. Accordingly, this service is not applicable.

Operating Reserve - Spinning Reserve Service

(Pursuant to Schedule 5 of the Tariff)

The Main Canal Generating Plant does not reside in Avista's Balancing Area. Accordingly, this service is not applicable.

Operating Reserve - Supplemental Reserve Service

(Pursuant to Schedule 6 of the Tariff)

The Main Canal Generating Plant does not reside in Avista's Balancing Area. Accordingly, this service is not applicable.



LONG-TERM FIRM USE-OF-FACILITIES AGREEMENT

under

**AVISTA CORPORATION'S
OPEN ACCESS TRANSMISSION TARIFF
FERC ELECTRIC TARIFF, VOLUME NO. 8**

This LONG-TERM FIRM USE-OF-FACILITIES AGREEMENT made and entered into this ____ day of _____, 2008, by and between AVISTA CORPORATION ("Avista") and the CITY OF SEATTLE ACTING BY AND THROUGH ITS LIGHT DEPARTMENT ("Seattle City Light"), which hereinafter may be referred to individually as "Party" or collectively as "Parties."

WITNESSETH

WHEREAS, Avista provides Firm Point-to-Point Transmission Service over its Transmission System under Avista's Open Access Transmission Tariff; and

WHEREAS, Seattle City Light historically obtained transfer service from Avista for the output of the Summer Falls Generating Plant pursuant to Avista's Rate Schedule FERC No. 164 and, on an interim basis, pursuant to a Long-Term Firm Point-to-Point Transmission Service Agreement under Avista's Tariff (Avista Contract No. AV-TR06-0208); and

WHEREAS, Seattle City Light has considered alternative methods to transfer the output of the Summer Falls Generating Plant, including the construction of new transmission facilities intended to bypass Avista's Transmission System; and

WHEREAS, under the current system configuration and revised Point of Delivery, Seattle City Light requires transfer service only over a portion of Avista's Stratford 115 kV Switching Station facilities and does not require transmission service over any substantial distance of Avista's Transmission System; and

WHEREAS, Seattle City Light desires to continue to obtain long-term firm transfer service over Avista's transmission facilities at the Stratford 115 kV Switching Station for the output of the Summer Falls Generating Plant pursuant to a use-of-facilities arrangement; and

NOW THEREFORE, the Parties agree as follows:

Section 1 - Definitions

Unless otherwise defined herein, all capitalized terms shall have their respective meanings as set forth in Avista's Open Access Transmission Tariff, FERC Electric Tariff, Volume No. 8 ("Tariff"). Seattle City Light shall be the Transmission Customer as such term is used in the Tariff and Avista shall be the Transmission Provider as such term is used in the Tariff.

Section 2 - Standard Provisions

- 2.1 **Terms and Conditions:** The terms and conditions under which Long-Term Firm Use-of-Facilities is offered and accepted are pursuant to this Service Agreement and to the Tariff. The Tariff is hereby incorporated by this reference and made a part of this Service Agreement. Avista may change the terms and conditions of the Tariff upon, and only upon, approval by the Commission pursuant to a filing by Avista.



- 2.2 Application Deposit: Pursuant to Avista's posted discretionary practices with respect to the rollover or continuation of historical transfer service, Avista has waived Seattle City Light's requirement to provide an Application deposit in accordance with the provisions of Section 17.3 of the Tariff.
- 2.3 System Impact and Facilities Studies: Study Agreements for a System Impact Study and/or a Facilities Study are not required to continue to transfer the output of the Summer Falls Generating Plant over Avista's Transmission System.

Section 3 - Term and Regulatory Filing

- 3.1 Effective Date and Filing: This Service Agreement shall be effective on the Service Commencement Date of June 1, 2008 or such other date as may be designated by the Commission when accepted for filing ("Effective Date"). Avista shall file this Service Agreement with the Commission as a Service Agreement under the Tariff.
- 3.2 Termination of Agreement: This Service Agreement shall remain in effect through October 31, 2024.
- 3.3 Early Termination of Agreement: If at any such time a bypass transmission line is to be constructed and energized that connects the Summer Falls Generating Plant to the transmission system of the Public Utility District No. 2 of Grant County, Washington and the Stratford-Summer Falls 115kV Transmission Line will no longer be required to integrate the Summer Falls Generating Project, Seattle City Light may terminate this Service Agreement upon one year's prior written notice. Upon receiving such notice Avista shall agree to a date within the one year period for de-energizing and disconnecting the Stratford-Summer Falls 115kV Transmission Line from the Stratford 115kV Switching Station.

Section 4 - Long-Term Firm Use-of-Facilities

Commencing on the Effective Date Avista shall provide, and Seattle City Light shall take and pay for, Long-Term Firm Use-of-Facilities over a portion of Avista's Stratford 115 kV Switching Station. Exhibit 1 to this Service Agreement lists the Point of Receipt and Point of Delivery, the amounts of Reserved Capacity at the Point of Receipt and Point of Delivery and applicable charges for Long-Term Firm Use-of-Facilities.

Section 5 - Other Services

Commencing on the Effective Date Avista shall provide, and Seattle City Light shall take and pay for, the following Ancillary Services:

- 5.1 Scheduling, System Control and Dispatch Service
- 5.2 Reactive Supply and Voltage Control from Generation or Other Sources Service
- 5.3 Regulation and Frequency Response Service
- 5.4 Energy Imbalance Service
- 5.5 Operating Reserve - Spinning Reserve Service
- 5.6 Operating Reserve - Supplemental Reserve Service

The amounts of such services, specific terms and conditions associated with such services and the charges for such services are listed in Exhibit 2 to this Service Agreement.



Section 6 - Construction of Facilities

No construction of Direct Assignment Facilities or Network Upgrades are required for Use of Facilities to be provided pursuant to this Service Agreement.

Section 7 - Billing and Payment

Billing and payment for all services provided under this Service Agreement shall be pursuant to Section 7 of the Tariff. Bills sent to Seattle City Light shall be sent to:

Attention: Power Accounts Coordinator
Seattle City Light
700 Fifth Avenue, Suite 3200
P. O. Box 34023
Seattle, Washington 98124-4023

All payments to Avista shall be submitted via electronic funds transfer to the account specified on each invoice.

Section 8 - Miscellaneous Provisions

- 8.1 **Waivers:** Any waiver at any time by either Party hereto of its rights with respect to the other Party or with respect to any matter arising in connection with this Service Agreement shall not be considered a waiver with respect to any other default of the same or any other matter.
- 8.2 **Effect of Section Headings:** Section headings appearing in this Service Agreement are inserted for convenience of reference only and shall not be construed to be interpretations of the text of this Service Agreement.
- 8.3 **Notices:** Any written notice or request made to Avista under this Service Agreement shall be directed to:

Attention: Manager, Transmission Services
Avista Corporation
1411 East Mission Avenue
Spokane, Washington 99202-1902
or
P.O. Box 3727
Spokane, Washington 99220-3727

Any written notice or request made to Seattle City Light under this Service Agreement shall be directed to:

Attention: Power Manager
Seattle City Light
700 Fifth Avenue, Suite 3200
P. O. Box 34023
Seattle, Washington 98124-4023



IN WITNESS WHEREOF, the Parties hereto have caused this Service Agreement to be executed in their respective names by their duly authorized representatives as of the date first noted above.

AVISTA CORPORATION

By: _____

Jeff Schlect

Manager, Transmission Services

Signed this _____ day of February, 2008.

CITY OF SEATTLE

By: _____

Jorge Carrasco

Superintendent

Signed this _____ day of _____, 2008.



**EXHIBIT 1
SPECIFICATIONS AND CHARGES FOR
LONG-TERM FIRM USE-OF-FACILITIES**

Point of Receipt

Location: The point in Avista's Stratford 115 kV Switching Station where the 115 kV facilities of the Grand Coulee Project Hydroelectric Authority and Avista are connected.

Reserved Capacity: Forty-eight megawatts (48MW)

Delivering Party: Seattle City Light

Point of Delivery

Location: The point in Avista's Stratford 115 kV Switching Station where the 115 kV facilities of Avista and the Public Utility District No. 2 of Grant County are connected.

Reserved Capacity: Forty-eight megawatts (48MW)

Receiving Party: Seattle City Light (PUD No. 2 of Grant County Balancing Authority Area)

Reserved Capacity

Maximum Amount of Capacity and Energy to be Transmitted: Forty-eight megawatts (48MW)

Monthly Use-of-Facilities Charge

One twelfth of the annual use-of-facilities charge of \$37,111, or \$3,093, where such charge is based upon fifty-percent (50%) of the total investment in the Stratford 115kV Switching Station. In the event Avista makes capital replacements or improvements to the Stratford 115kV Switching Station Avista may, pursuant to a filing with the Commission, seek to adjust the annual use-of-facilities charge.

Losses

(Pursuant to Section 15.7 of the Tariff)
No losses shall be assessed.

System Impact and/or Facilities Study Charges

(Pursuant to Section 19 of the Tariff)
None required

Direct Assignment Facilities Charges

None required



EXHIBIT 2
SPECIFICATIONS AND CHARGES FOR ANCILLARY SERVICES

Scheduling, System Control and Dispatch Service

Not applicable.

Reactive Supply and Voltage Control from Generation or Other Sources Service

Not applicable.

Regulation and Frequency Response Service

(Pursuant to Schedule 3 of the Tariff)

The Summer Falls Generating Plant does not reside in Avista's Balancing Area. Accordingly, this service is not applicable.

Energy Imbalance Service

(Pursuant to Schedule 4 of the Tariff)

The Summer Falls Generating Plant does not reside in Avista's Balancing Area. Accordingly, this service is not applicable.

Operating Reserve - Spinning Reserve Service

(Pursuant to Schedule 5 of the Tariff)

The Summer Falls Generating Plant does not reside in Avista's Balancing Area. Accordingly, this service is not applicable.

Operating Reserve - Supplemental Reserve Service

(Pursuant to Schedule 6 of the Tariff)

The Summer Falls Generating Plant does not reside in Avista's Balancing Area. Accordingly, this service is not applicable.



FISCAL NOTE FOR NON-CAPITAL PROJECTS

Department:	Contact Person/Phone:	DOF Analyst/Phone:
City Light	Robert Cromwell, 684-3856	Karl Stickel, 684-8085

Legislation Title:

AN ORDINANCE relating to the City Light Department; authorizing the execution of three agreements to provide for the transmission of power from the Summer Falls and Main Canal Hydroelectric Projects to the City of Seattle.

• **Summary of the Legislation:**

The Ordinance authorizes the Superintendent of Seattle City Light, or his designee, to execute three agreements which would replace an expired transmission agreement with the Avista Corporation ("Avista") to allow for the transmission of the output of the Summer Falls and Main Canal Hydroelectric Projects for the remaining term of these power purchase agreements.¹

These contracts utilize the services of both Avista and Public Utility District No. 2 of Grant County (Grant) and will provide for an efficient and cost-effective substitute for the alternatives of either interconnecting with the Bonneville Power Administration or continuing service under Avista's tariff rate. Executing these contracts will also resolve litigation with the Grand Coulee Projects Hydroelectric Authority ("GCPHA") now pending before the Federal Energy Regulatory Commission regarding the Bonneville Power Administration ("BPA") interconnection option, as well as eliminate the construction and material cost risks associated with that capital project.

These contracts do not require an additional appropriation and will result in a net savings in 2008 of \$46,100.

• **Background:**

Please see Attachment B to the Fiscal Note for the background and summary on this legislation.

- *Please check one of the following:*

_____ **This legislation does not have any financial implications.** (Stop here and delete the remainder of this document prior to saving and printing.)

¹ Seattle and Tacoma each purchase one-half of the projects' output.



X **This legislation has financial implications.** (Please complete all relevant sections that follow.)

Appropriations: This table should reflect appropriations that are a direct result of this legislation. In the event that the project/ programs associated with this ordinance have appropriations that were, or will be, received because of previous or future legislation or budget actions, please provide details in the Notes section below.

Fund Name and Number	Department	Budget Control Level*	2008 Appropriation	2009 Anticipated Appropriation
TOTAL				

**See budget book to obtain the appropriate Budget Control Level for your department.*

Notes: The legislation itself does not make any appropriations, but there are indirect financial impacts with approval of the package. City Light had budgeted for a BPA interconnection, a capital project that will not be pursued as a result of these contracts. The financial impact of the three contracts collectively will be the \$1,000,000 up-front payment to Grant PUD in 2008 and approximately \$30,000 per month during the March through October irrigation season for the period of the contracts for transmission, use of facilities and costs associated with losses (exact figures will be quantity dependant).

Currently budgeted in 2008 is \$958,300 for transmission service with Avista, in contemplation of the BPA interconnection being constructed and not yet available. This is represented in the table above as an off-set.

These contracts do not require an additional appropriation and will result in a net savings in 2008 of \$46,100.

Anticipated Revenue/Reimbursement: Resulting From This Legislation: This table should reflect revenues/reimbursements that are a direct result of this legislation. In the event that the issues/projects associated with this ordinance/resolution have revenues or reimbursements that were, or will be, received because of previous or future legislation or budget actions, please provide details in the Notes section below the table.

Fund Name and Number	Department	Revenue Source	2008 Revenue	2009 Revenue
SCL #41000	City Light	BPA - Refund	\$250,000	0
TOTAL			\$250,000	0

Notes:

A pre-paid deposit made with BPA will be refunded to Seattle City Light upon the formal withdrawal of the interconnection and transmission request associated with the BPA interconnection option. The \$250,000 identified above is ½ of the \$500,000 deposit made jointly by Seattle City Light and Tacoma Power.

Total Regular Positions Created, Modified, Or Abrogated Through This Legislation, Including FTE Impact: This table should only reflect the actual number of positions created by this legislation. In the event that positions have been, or will be, created as a result of previous or future legislation or budget actions, please provide details in the Notes section below the table.

Position Title and Department*	Position Number for Existing Positions	Fund Name and Number	Part-Time/ Full Time	2008 Positions	2008 FTE	2009 Positions **	2009 FTE*
TOTAL	0	0	0	0	0	0	0

* List each position separately

** 2009 positions and FTE are total 2009 position changes resulting from this legislation, not incremental changes. Therefore, under 2009, please be sure to include any continuing positions from 2008.

Notes:

Not applicable

• **Do positions sunset in the future?** (If yes, identify sunset date):

Not applicable

Spending/Cash Flow: *This table should be completed only in those cases where part or all of the funds authorized by this legislation will be spent in a different year than when they were appropriated (e.g., as in the case of certain grants and capital projects). Details surrounding spending that will occur in future years should be provided in the Notes section below the table.*

Fund Name and Number	Department	Budget Control Level*	2008 Expenditures	2009 Anticipated Expenditures
TOTAL			0	0

* See budget book to obtain the appropriate Budget Control Level for your department.

Notes:

Not applicable

- **What is the financial cost of not implementing the legislation?** *(Estimate the costs to the City of not implementing the legislation, including estimated costs to maintain or expand an existing facility or the cost avoidance due to replacement of an existing facility, potential conflicts with regulatory requirements, or other potential costs if the legislation is not implemented.)*

Failing to implement this legislation would require City Light to continue to take transmission service under Avista's OATT rate for the entire output of the Summer Falls and Main Canal projects, at roughly twice the cost of this set of contracts. The following comparison identifies the forecasted cost differentials over a ten year period:

10 Year Present Value Comparison

\$28.9 million - stay with Avista at tariff rates
\$10.5 million - 230kV interconnection with BPA
\$10.8 million - Grant & Cities 50/50 build option
\$11.3 million - non-wires with Avista and Grant

- **What are the possible alternatives to the legislation that could achieve the same or similar objectives?** *(Include any potential alternatives to the proposed legislation, such as reducing fee-supported activities, identifying outside funding sources for fee-supported activities, etc.)*

As discussed above, City Light had proposed an interconnection with BPA for the transmission of the GCPHA projects' output via BPA's 230kV transmission system. In addition to the transmission agreement BPA would require, the BPA interconnection would require development and construction of transmission lines from the projects to the BPA transmission lines and the construction of a substation.

The other alternative would be to continue to receive transmission service pursuant to Avista's OATT tariff rate, at roughly twice the cost of these contracts.

The alternative proposed herein eliminates the capital project and the construction and material cost risks associated with the BPA interconnection, resolves the on-going litigation at FERC with GCPHA, and avoids Avista's OATT tariff rate.

The following comparison identifies the forecasted cost differentials over a ten year period:

10 Year Present Value Comparison

- \$28.9 million - stay with Avista at tariff rates
- \$10.5 million - 230kV interconnection with BPA
- \$10.8 million - Grant & Cities 50/50 build option
- \$11.3 million - non-wires with Avista and Grant

Given the uncertainty and cost escalations surrounding the options involving capital construction (BPA IC and Grant-Cities build) the non-wires alternative was pursued as virtually certain to be the least cost option for Seattle City Light and Tacoma Power.

- **Is the legislation subject to public hearing requirements:** *(If yes, what public hearings have been held to date, and/or what plans are in place to hold a public hearing(s) in the future.)*

No.

- **Other Issues** *(including long-term implications of the legislation):*

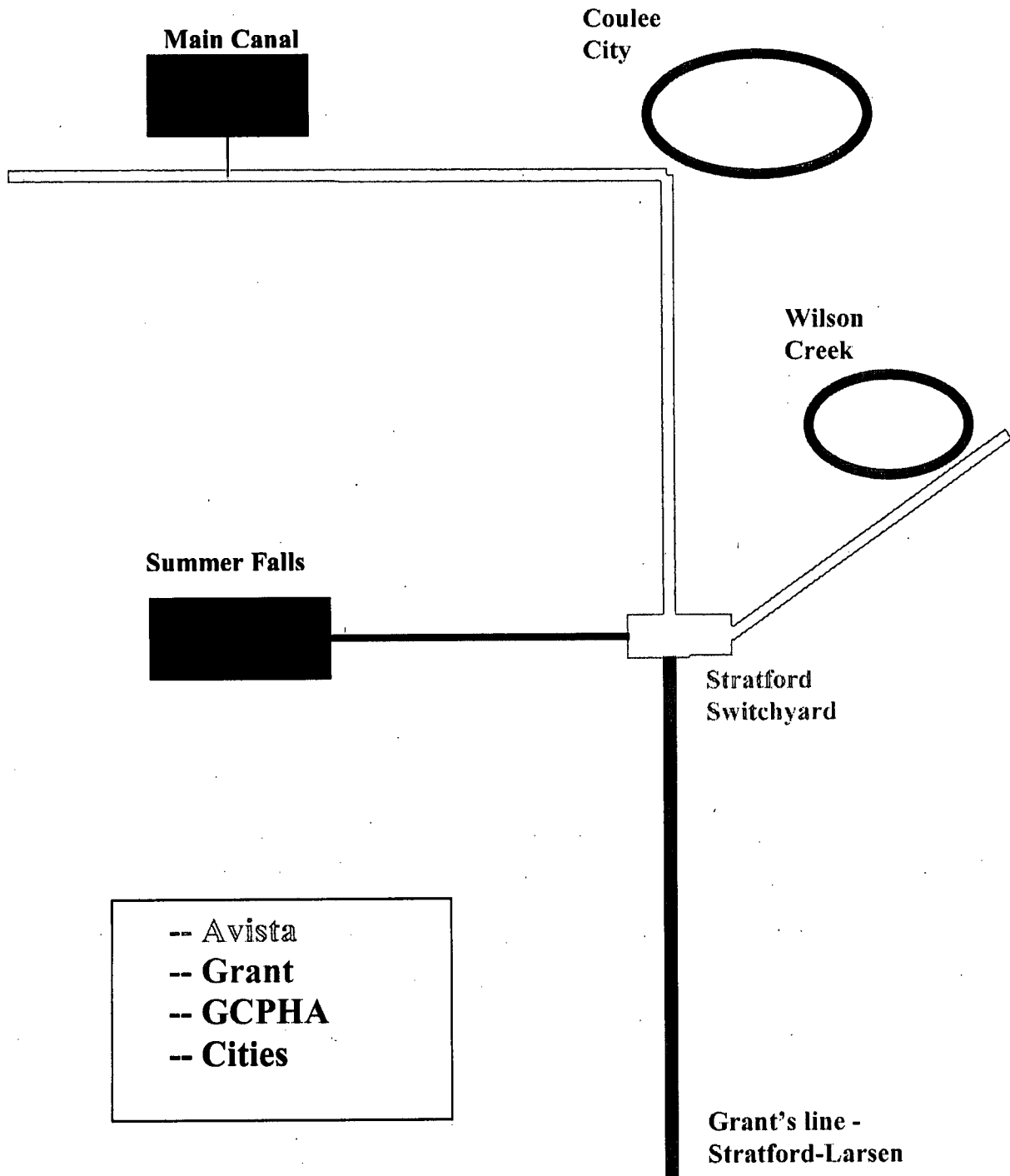
Extrinsic to the terms of the contracts, this arrangement provides the basis for improved relations with Avista, GCPHA and Grant PUD, an important consideration on a going-forward basis when City Light will need to acquire additional renewable resources.

Please list attachments to the fiscal note below:

Attachment A: Diagram GCPHA Interconnection

Attachment B: Background and Summary

Attachment A



**Grand Coulee Project Hydroelectric Authority
Seattle City Light
Background & Summary**

The Cities of Seattle and Tacoma (i.e. the Cities) currently purchase the entire electrical output of the Main Canal and Summer Falls hydroelectric projects under a Power Purchase and Sale Contracts ("PPSC") that extend until October 2026 and October 2024, respectively.¹ The proposed contracts will transmit the power on the Cities' behalf for the remaining term of the PPSCs.² The Cities have spent several years developing an alternative transmission arrangement whereby BPA and the Cities would construct a new 115/230 kV interconnection in the vicinity of the Main Canal and Summer Falls projects.³ The Grand Coulee Project Hydroelectric Authority ("GCPHA"), as the manager of the Summer Falls and Main Canal Hydroelectric Projects, opposed these efforts, resulting in litigation at the Federal Energy Regulatory Commission ("FERC"). Avista and Grant also intervened as parties in the FERC proceeding. FERC issued an initial ruling in the Cities favor in 2007, prompting GCPHA to enlist Grant County PUD to assist them in seeking a resolution of the litigation. From Seattle City Light's perspective, a settlement that does not require a FERC license and construction would avoid at least two years of delay in interconnecting with BPA as well as eliminating the construction and material cost risk associated with this type of capital project. The FERC litigation has been stayed pending the settlement reflected in the attached contracts.

The Cities and Grant, in consultation with GCPHA, have developed a plan with Avista for a new transmission arrangement that would be established sooner than the construction of the proposed direct interconnection with BPA at a reasonable present value cost. This cost is also less than half the estimated Avista transmission tariff costs. City Light compared these costs in 2007 when determining which path to pursue.

10 Year Present Value Comparison

\$28.9 million - stay with Avista at tariff rates⁴
\$10.5 million - 230kV interconnection with BPA⁵
\$10.8 million - Grant & Cities 50/50 build option⁶
\$11.3 million - non-wires with Avista and Grant

¹ There are also three smaller GCPHA hydroelectric projects that are transmitted via the Bonneville Power Administration ("BPA") and are not subject to this transmission arrangement.

² To allow for necessary legislative review a short-term set of agreements, virtually identical to those attached to this ordinance package, are now in place to provide for Transmission during the months of March, April, and May 2008.

³ A bill was introduced to the Seattle City Council to lift a budget proviso relating to the BPA interconnection, resulting in Ordinance 122449.

⁴ \$1.05/kW-mo. and assuming a 3% escalation every 3 years.

⁵ This is based upon City Light's last construction cost estimation from 2005-6. Energy facility construction costs have increased dramatically in the interim. For example, on February 25, 2008 the Power Capital Costs Index (developed by IHS, Inc. and Cambridge Energy Research Associates (CERA)), indicated a three year increase in the cost of power plant construction of 76%, a 27% increase within the last year, and a 19% increase in the past six months. Such cost increases have not been factored into Seattle City Light's construction cost estimates for the BPA interconnection, or the comparison provided above.

⁶ Grant and the Cities jointly build an interconnection facility.



Attachment B to Fiscal Note

City Light and Tacoma Power staff jointly recommended to their management that the non-wires option be pursued as being reasonably equivalent in cost to the BPA interconnection, while also producing the benefits of avoiding construction risk, eliminating FERC litigation, and improving the relationships with Grant PUD, Avista, and GCPHA.

Near-term cost estimates for the three contracts are as follows:

2008 - \$1,162,200

2009 - \$131,400

2010 - \$131,400

Upon the Seattle City Council's approval, and the Superintendent's execution of the three agreements, these contracts would end the proposed direct interconnection with BPA, avoid incurring either Avista's tariff rate or increases in construction and material costs, and resolve the FERC litigation now pending.

Grant PUD and the Cities:

Grant has developed an exchange agreement with both Cities under which Grant will receive the output of the Main Canal and Summer Falls hydroelectric projects. The Cities will each receive in return comparable amounts of each project's output, delivered to each City at Grant's interconnection point with BPA at Mid-Columbia. Grant will be using the energy from Main Canal to serve its loads in Coulee City and Wilson Creek (See diagram below).

The Cities will pay Grant PUD \$2 million (Seattle's share is \$1 million) as a capital contribution towards the rebuilding of Grant's Stratford-Larson line; in compensation for transmitting the project output from Main Canal and Summer Falls, less losses.⁷

Avista and the Cities:

Avista will transmit the output of the Main Canal project to the Stratford Substation where it interconnects with Grant. The actual amount transmitted will be Main Canal's capacity less the energy used by Grant to serve its loads at Coulee City and Wilson Creek.⁸ The initial rate will be \$1.40/kW-mo., less losses, scheduled to be returned in-kind or settled financially.

Avista has also developed a facilities use agreement with each City to allow the output of the Summer Falls hydroelectric project to be delivered to Grant's system at its Stratford Substation for \$78,000 per year or less (Seattle's share is \$39,000 or less).

Conclusion

In comparison to the proposed BPA interconnection or renegotiating a long-term transmission arrangement with Avista at tariff rates, this "non-wires" alternative was

⁷ Specific scheduling and e-tagging details being worked on currently by the respective control center staffs of Seattle City Light, Tacoma Power, Grant PUD and Avista Corp.

⁸ Losses will be settled physically.

Attachment B to Fiscal Note

reasonably equivalent or less than the present value cost of the BPA interconnection and less than half the cost of Avista's tariff rate. Thus, it is estimated that this "non-wires" alternative will save the Cities approximately \$18 million over the remaining term of the power sales agreements for Main Canal and Summer Falls. This non-wires alternative has the least amount of risk associated with it. The BPA alternative would require significant construction and material costs and the substantial uncertainty attendant to the rights-of-way needed to construct the alternative. The proposed direct interconnection with BPA also has significant additional risk involved with completing the necessary processes at FERC and leads to a number of questions about the transition of these facilities once the Cities' power sales agreements with GCPHA expire.

The non-wires solution provides not only a cost-effective resolution of this specific dispute, but provides substantial intangible benefits regarding the Cities' relationship with Grant, GCPHA, and Avista. These contracts also resolve the associated FERC litigation.

Related Issues

The Cities, Avista, Grant and GCPHA have discussed the proposed contractual structure and believe it not only minimizes the potential for future disputes, they better serve the region by more efficiently utilizing existing transmission facilities, avoid construction of additional facilities, and better "mirror" the actual flow of energy in that portion of the interconnected system.⁹

In the event of a force-majeure that was more than transitory the parties have discussed alternatives, depending upon where the system failure occurs. Failure of generation or the primarily transmission lines leaving the projects present few options to repairing the damage and placing the facilities back in service. In the event of a failure on either Avista or Grant's systems, the energy could be routed on different paths, provided reliability requirements and path limits are respected.

⁹ Contract rights and the physical flow of energy on the interconnected transmission system are not always the same.





City of Seattle

Gregory J. Nickels, Mayor

Office of the Mayor

April 15, 2008

Honorable Richard Conlin
President
Seattle City Council
City Hall, 2nd Floor

Dear Council President Conlin:

I am pleased to transmit the attached proposed Council Bill authorizing the Superintendent of Seattle City Light to execute three agreements to replace an expired transmission agreement with the Avista Corporation for the transmission of power from the Summer Falls and Main Canal Hydroelectric Projects. The agreements, which utilize the services of both Avista and Public Utility District No. 2 of Grant County, will provide an efficient and cost-effective alternative to either interconnecting with the Bonneville Power Administration or continuing service under Avista's previous contract. Passage of this legislation will also resolve litigation with the Grand Coulee Projects Hydroelectric Authority regarding the Bonneville Power Administration ("BPA") interconnection option, as well as eliminate construction and material cost risks associated with that capital project. Execution of these contracts will result in a net savings in 2008 of \$46,100.

Thank you for your consideration of this legislation. Should you have questions, please contact Robert Cromwell at (206) 684-3856.

Sincerely,

A handwritten signature in black ink, appearing to read "Greg Nickels", written over the printed name and title.

GREG NICKELS
Mayor of Seattle

cc: Honorable Members of the Seattle City Council

1 Attachment A: Grant County Power Exchange Agreement

2 Exhibit to Attachment A:

3 Exhibit 1: Example Calculations Referenced in Section 4

4 Attachment B: Avista Long-Term Point-to-Point Transmission Service Agreement

5 Exhibits to Attachment B:

6 Exhibit 1: Specifications & Charges for Long-Term Point-to-Point Transmission Service

7 Exhibit 2: Specifications & Charges for Ancillary Services

8 Attachment C: Avista Long-Term Firm Use-of-Facilities Agreement

9 Exhibits to Attachment C:

10 Exhibit 1: Specifications and Charges for Long-Term Firm Use-of-Facilities

11 Exhibit 2: Specifications and Charges for Ancillary Services



Section 3. This ordinance shall take effect and be in force thirty (30) days from and after its approval by the Mayor, but if not approved and returned by the Mayor within ten (10) days after presentation, it shall take effect as provided by Municipal Code Section 1.04.020.

Passed by the City Council the ____ day of _____, 2008, and signed by me in open session in authentication of its passage this ____ day of _____, 2008.

President _____ of the City Council

Approved by me this ____ day of _____, 2008.

Gregory J. Nickels, Mayor

Filed by me this ____ day of _____, 2008.

City Clerk

(Seal)



BE IT ORDAINED BY THE CITY OF SEATTLE AS FOLLOWS:

Section 1. The Superintendent of the City Light, or his designee, is hereby authorized to execute for and on behalf of the City of Seattle the following three agreements:

- (a) a power exchange agreement with Grant PUD, substantially in the form attached hereto as Attachment A,
- (b) a long-term firm point-to-point transmission service agreement with Avista, substantially in the form attached hereto as Attachment B, and
- (c) a long-term firm use-of-facilities agreement with Avista, substantially in the form attached hereto as Attachment C.

These agreements collectively provide for transmission services for the remaining term of the underlying power purchase agreements between the Cities and GCPHA. Accordingly, the Superintendent of the City Light, or his designee, is also authorized to execute any future amendments or agreements that are necessary to comply with any regulatory changes or to maintain reliable transmission service for the remaining terms of the underlying power purchase agreements.

Section 2. Any act consistent with the authority of this ordinance that is taken after its passage but prior to its effective date is hereby ratified and confirmed.



ORDINANCE _____

AN ORDINANCE relating to the City Light Department; authorizing the execution of three agreements to provide for the transmission of power from the Summer Falls and Main Canal Hydroelectric Projects to the City of Seattle.

WHEREAS, the City Light Department ("City Light") and Tacoma Power ("Tacoma") (collectively the "Cities") purchase the output of the Summer Falls and Main Canal Hydroelectric Projects located in Grant County, Washington, both of which are managed by the Grand Coulee Project Hydroelectric Authority ("GCPHA"); and

WHEREAS, the Cities previously purchased transmission from the Avista Corporation ("Avista") in order to transmit the energy from the Summer Falls and Main Canal Hydroelectric Projects to the Cities; and

WHEREAS, the Cities allowed the Avista transmission agreement to expire because the Cities believed a more cost-effective transmission arrangement could be obtained; and

WHEREAS, City Light and Tacoma considered the alternative of directly interconnecting with the Bonneville Power Administration ("BPA") and engaged in litigation at the Federal Energy Regulatory Commission ("FERC") with the GCPHA; and

WHEREAS, as a result of the BPA direct interconnection plan and a bill was introduced to the Seattle City Council to lift a budget proviso relating to the BPA interconnection, resulting in Ordinance 122449; and

WHEREAS, the Cities and GCPHA desire to provide for the cost-effective transmission of the project output for the remaining term of the Power Purchase and Sale Contract between the Cities and GCPHA and to resolve the current litigation at FERC; and

WHEREAS, a long-term means of achieving the parties' mutual interests has been developed through an exchange agreement with the Public Utility District No. 2 of Grant County ("Grant PUD"), a limited transmission agreement with Avista, and a use-of-facilities agreement with Avista; and

WHEREAS, the three agreements identified above are a cost-effective means of providing necessary transmission for the output of the Summer Falls and Main Canal Hydroelectric Projects, resolving the on-going litigation, and mitigating the construction and material cost risks associated with the BPA direct interconnection; NOW, THEREFORE,



STATE OF WASHINGTON - KING COUNTY

--SS.

224673

No.

CITY OF SEATTLE, CLERKS OFFICE

Affidavit of Publication

The undersigned, on oath states that he is an authorized representative of The Daily Journal of Commerce, a daily newspaper, which newspaper is a legal newspaper of general circulation and it is now and has been for more than six months prior to the date of publication hereinafter referred to, published in the English language continuously as a daily newspaper in Seattle, King County, Washington, and it is now and during all of said time was printed in an office maintained at the aforesaid place of publication of this newspaper. The Daily Journal of Commerce was on the 12th day of June, 1941, approved as a legal newspaper by the Superior Court of King County.

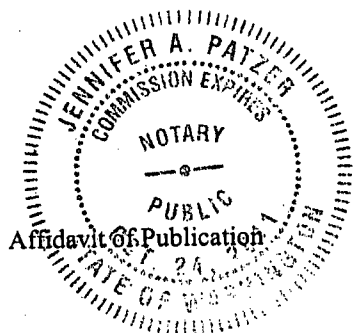
The notice in the exact form annexed, was published in regular issues of The Daily Journal of Commerce, which was regularly distributed to its subscribers during the below stated period. The annexed notice, a

CT:122686-122690 TITLE

was published on

05/22/08

The amount of the fee charged for the foregoing publication is the sum of \$ 77.28, which amount has been paid in full.



Subscribed and sworn to before me on
05/22/08
Notary public for the State of Washington,
residing in Seattle

State of Washington, King County

City of Seattle

TITLE-ONLY PUBLICATION

The full text of the following ordinances, passed by the City Council on May 12, 2008, and published here by title only, will be mailed, at no cost, on request for two months after this publication. For further information, contact the Seattle City Clerk at 884-8844.

ORDINANCE NO. 122690

AN ORDINANCE appropriating money to pay certain audited claims and ordering the payment thereof.

ORDINANCE NO. 122689

AN ORDINANCE relating to foreclosure prevention; establishing policies for a foreclosure prevention program; clarifying and limiting the authority of the Office of Housing to use a 2008 Budget allowance for the program; imposing a proviso; and ratifying and confirming prior acts.

ORDINANCE NO. 122688

AN ORDINANCE relating to the Alaskan Way Viaduct Electrical Utility Relocation Phase I Project; authorizing execution of three Memoranda of Agreement between the Washington State Department of Transportation and the City of Seattle; changing and establishing the grades of South Royal Brougham Way between Alaskan Way South and First Avenue South; and creating a new position in Seattle City Light.

ORDINANCE NO. 122687

AN ORDINANCE relating to the City Light Department; authorizing the execution of three agreements to provide for the transmission of power from the Summer Falls and Main Canal Hydroelectric Projects to the City of Seattle.

ORDINANCE NO. 122686

AN ORDINANCE relating to financing certain capital activities of Seattle Department of Transportation; increasing appropriations to the Department of Transportation in the 2008 Budget; and amending the 2008-2013 Capital Improvement Program; all by a three-fourths vote of the City Council.

Publication ordered by JUDITH PIPPIN, City Clerk

Date of publication in the Seattle Daily Journal of Commerce, May 22, 2008.

5/22(224878)